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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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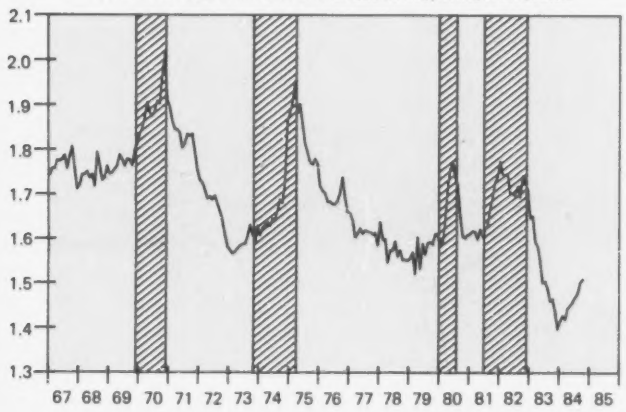
The Increase In Inventories . . .

Inventory investment played an important role in the rapid growth of the economy in the first half of 1984. The impressive rate of business inventory accumulation in this period was in response to strong final demand. In the third quarter, however, not only did real final demand decline, but a substantial increase in imports occurred, producing an unintended rise of $30 billion in constant-dollar inventories. This, in turn, brought out concerns that in the absence of a revival in final demand anytime soon, businesses' attempts to fine-tune inventories could lead to a full-scale inventory correction and slower economic growth. Indeed, if the rate of stockpiling in the third quarter had remained at the same level as in the second quarter, inflation-adjusted gross national product would have fallen at a seasonally adjusted 0.5 percent annual rate.

CHART I
CURRENT-DOLLAR INVENTORY-SALES RATIO, MANUFACTURING

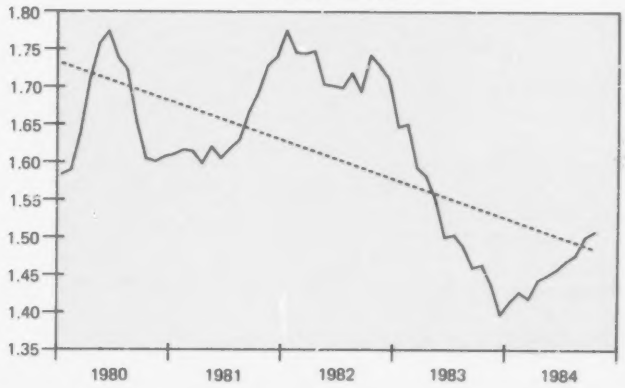


Looking at the important manufacturing sector, it does not appear that a drastic inventory adjustment is under way. There is little evidence that significant imbalances have developed and the need to adjust inventory levels downward in line with lower sales will be minimal. This is because manufacturers have promptly responded to excessive stockpiling by cutting new orders and, in turn, production schedules. Industrial production declined 0.5 percent in September and remained flat in October.

. . . May Signal A Slowdown . . .

The inventory-to-sales ratio in the manufacturing sector gives little evidence of significant overhang. Despite the increases in the last seven months, the current-dollar inventory-sales ratio is still very low by historical standards (see Chart I). Indeed, this traditional way of looking at inventory-to-sales ratios might give the impression that further accumulation could take place just to bring inventories up to a normal alignment with sales.

CHART II
CURRENT-DOLLAR INVENTORY-SALES RATIO, MANUFACTURING (LINE) VS. TREND LINE (DOT)



However, historical patterns may no longer be accurate in measuring the inventory-to-sales ratio and this ratio should be examined in a more recent time frame. The ratio has turned down in the past few years as a result of improved inventory management techniques made possible by the growing use of computers. In addition, high interest rates, low rates of inflation and the need to cut costs to compete with foreign manufacturers have placed great pressure on managers to keep inventories at minimum working levels. This was evident in the first year of the current expansion when businesses kept a very tight rein on inventories. When it became apparent that the recovery was much stronger than expected, businesses began to build inventories to avoid losing sales. As Chart II indicates, the current-dollar inventory-to-sales ratio would appear to be very close to where it should be, given the downward trend of this ratio in recent years.

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. . . But Fears May Be Unfounded

Another indication that inventories are not excessive comes from the nation's purchasing managers—the majority of whom report that inventory buildup not only has halted, but inventory liquidation appeared to be taking place.

The extent to which business feels comfortable with the level of inventories will determine the near-term course of the economy. Automakers, for example, are concerned about having enough cars in stock to meet demand. New-car supplies for most of this year have run about 15 percent below normal levels. In November, inventories of cars stood at just a 58-day supply, whereas a 65-day supply is considered normal for this time of year. The auto industry has set a heavy production schedule for December and the first quarter of 1985 to build up inventories and meet sales. Domestic automakers plan to produce 565,000 cars this month which would bring the total October-December output to the highest level for any fourth quarter in six years.

Furthermore, the steep decline in interest rates over the past three months has set the stage for an increase in spending, which should decrease inventories, particularly in such interest-sensitive sectors as housing and durable goods. In addition, the recent surge in the money supply may be a sign that

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	12/5/84	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	164.939	+ .824	+ 5.890
Loans to Depository Inst.	4.352	+ .205	+ 3.915
Float	.524	– .632	– .819
Total Reserve Bank Credit	180.924	+ .281	+12.087
Treasury Deposits with Federal Reserve Banks	2.580	– .398	– .557
Currency in Circulation	179.713	– .134	+11.206
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	120.436	+ 1.692	+ 8.556
	12/5/84		
Member Bank Reserves:			
Total Reserves Held	38.935	+ .073	+ 3.636
Excess (Deficiency)	.949	+ .317	+ .444
Net Free Reserves	.472	+ .415	+ .318
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (11/26/84)	554.2	+ 1.7‡	+ 5.0‡
M2 (October '84)	2,317.2	+ 6.2	+ 6.9
M3 (October '84)	2,916.2	+ 7.8	+ 9.7
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 12/7/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.40%	8.60%	8.85%
* Federal Agencies	8.50	9.00	9.60
* Project Notes–Taxfree (46% Taxable Equivalent)	9.81	9.91	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.90	9.15	9.65

‡ Finance Company Paper–Prime

5- 14 days	8.55%
15- 29 days	8.60
30- 59 days	8.65
60- 89 days	8.55
90-179 days	8.30
180-239 days	8.20
240-270 days	8.20

‡* Bankers' Acceptances

Jan.	8.75%
Feb.	8.75
Mar.	8.80
Apr.	8.90
May	8.95
Jun.	8.95

‡ Industrial Paper–Prime

30- 89 days	8.63%
90-120 days	8.40

†Federal Funds Effective Rate 8.65%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,647	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.9	7.1	6.8
Change in Consumer Prices*	Oct '84	4.8%	4.8%	4.8%
Change in Producer Prices*	Oct '84	– 2.4%	– 2.4%	2.4%
Civilian Employment (Thousands of Persons)†	Nov '84n	105,872	105,586	102,606
Unemployment as % of Civilian Labor Force†	Nov '84n	7.2%	7.4%	8.4%
Personal Income*	Oct '84	$ 3,086	$ 3,068	$ 2,815
Leading Indicators Composite Index (1967=100)†	Oct '84	163.8	165.0	162.4
Industrial Production Index (1967=100) †	Oct '84	165.2	165.2	155.0
Net Change in Consumer Installment Credit †	Sep '84	$ 4.28	$ 6.00	$ 2.55
U.S. Merchandise Trade Balance †	Oct '84	–$ 9.18	–$ 12.65	–$ 8.43
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Oct '84	1,515	1,679	1,672
New Construction Expenditures*	Oct '84n	$ 315.8	$ 310.5r	$ 267.9
Total Business Inventories †	Sep '84	$ 559.8	$ 556.5	$ 507.0
Total Business Sales †	Sep '84	$ 408.9	$ 411.2	$ 379.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

business activity is picking up from the pause of the last few months.

The housing sector, another main engine of economic growth, is already responding to the easing in mortgage rates. New single-family home sales jumped by more than 20 percent in the latest two months. This sharply reduced the supply of new unsold single-family homes from 7.1 months in August to 6.3 in October.

Consumers are in a good position to spend. Incomes continue to rise because overall employment has not been seriously affected by the slowdown in economic growth. The savings rate is at its highest in more than two years, the rate of inflation remains subdued, and the ratio of consumer installment credit to disposable personal income indicates that there is still room for further growth in consumer credit. Not surprisingly, consumer confidence improved again in November to the highest level in five months. Retail sales also appear to be gaining momentum. The weather turned cooler in many parts of the country, providing a boost to sales of winter merchandise that languished on store shelves earlier this fall. Christmas shopping got off to a strong start Thanksgiving weekend, bolstering retailers' hopes that sales for the entire Holiday season will advance ahead of last year's impressive results.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/21/84)	159,054	+ 774	+12,896
New York City (11/28/84)	33,947	– 528	+ 2,401
Commercial Paper (11/28/84)	238,691	+ 576	+56,216

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/21/84)	248,643	+ 88	+30,396
New York City (11/28/84)	63,435	– 359	+ 5,791

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/21/84)	641,118	+ 36	+99,618
New York City (11/28/84)	142,392	– 2,370	+20,416

Financial Markets

	Friday 12/7/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.70%	– .05	– .65
180-Day Bills†	9.10	– .05	– .65
Longest Bills†	9.60	– .10	– .50
Recent Issues:			
11⅝s 10/31/86	10.50	+ .10	
11⅜s 9/30/88	11.15	+ .15	
11⅝s 11/15/94	11.65	+ .15	
11¾s 11/15/14	11.65	+ .10	
Municipals:			
Bond Buyer–20 Bond Index* (12/6/84)	9.95%	– .09	+ .04
Blue List Total ($ Million)	$1,885	+$ 235	+ $ 123
30-Day Visible Supply ($ Million)	$1,712	–$1,291	– $1,230
Total	$3,597	–$1,056	– $1,107
Corporates:			
Moody's Aa Composite (12/6/84)	12.55%	+ .03	– .20
30-Day Visible Supply ($ Million)	$1,480	–$ 20	– $ 350
Stocks:			
Dow-Jones Averages:			
Industrials	1,163.21	– 25.73	– 96.85
Transportation	522.70	+ .45	– 82.21
Utilities	144.65	– .97	+ 10.74
65 Stocks	467.78	– 6.42	– 38.06
Standard and Poor's 500 Stocks	162.26	– 1.32	– 2.83
N.Y.S.E. Composite Index	93.52	– .78	– 1.87
N.Y.S.E. Avg. Daily Vol. for Week (000's)	88,776	+ 6,262	– 7,008

* 46% Taxable equivalent 18.43%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/7/84	Week Ago
Overnight	8.50%	8.75%
1 month	9.00	8.81
3 month	9.25	8.94
6 month	9.63	9.75
1 year	10.25	10.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.75%	11.65%
Long Term (7 to 15 yrs.)	11.85	11.69

FOREIGN EXCHANGE SPOT RATES New York Opening (12/7/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01617	61.85
Canada	.7577	1.3198
Denmark	.09091	11.0000
France	.1063	9.4050
Germany	.3256	3.0710
Italy	.0005270	1897.50
Japan	.004049	246.98
Mexico	.004608	217.00
Netherlands	.2884	3.4670
Switzerland	.3946	2.5345
U.K.	1.2050	.8299

VAN GOGH

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October 18-December 30, 1984

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This exhibition gathers over 140 van Gogh works of art that have never been seen together before, and Manufacturers Hanover is pleased to help make it possible.

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WASHINGTON, DC 20014